# Essentials of the Monetary Policy



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#### October 22, 2014

## BANK OF CANADA

The target for the overnight rate stays at 1% The BoC is more concerned about imbalances in the household sector

#### ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 1.00%
- Although the outlook remains for stronger momentum in the global economy in 2015 and 2016, the profile is weaker than in July and growth prospects are diverging across regions. Persistent headwinds continue to buffet most economies and growth remains reliant on exceptional policy stimulus.
- The U.S. economy is gaining traction, particularly in sectors that are beneficial to Canada's export prospects. The U.S. dollar has strengthened against other major currencies, including the Canadian dollar.
- In Canada, exports have begun to respond. However, business investment remains weak. Meanwhile, the housing market and consumer spending are showing renewed vigour and auto sales have reached record highs, all fuelled by very low borrowing rates. The lower terms of trade will have a tempering effect on income.
- Canada's real GDP growth is projected by BoC to average close to 2 ½ per cent over the next year before slowing gradually to 2 per cent by the end of 2016 [...]. As global headwinds recede, confidence in the sustainability of domestic and global demand should improve and business investment should pick up.
- As the economy reaches its full capacity in the second half of 2016, both core and total CPI inflation are projected to be about 2 per cent on a sustained basis.
- The Bank judges that the risks to its inflation projection are roughly balanced. Meanwhile, the financial stability risks associated with household imbalances are edging higher.

#### COMMENTS

Overall, the monetary authorities seem to be more optimistic about the growth outlook, although they did stress the uncertainty surrounding economic conditions and the various projections. Among other things, the BoC notes that the movement by Canadian exports is encouraging thanks to a healthier U.S. economy, an improvement the monetary authorities had been awaiting for some time. The BoC's economic scenario has not changed much from last July's. The monetary authorities nonetheless mention that imbalances in the household sector could rise further, given the lively housing markets in some parts of the country and consumer spending's recent strength (especially on motor vehicles). This concern, combined with some positive developments in North America's economic landscape, is clearly responsible for the omission of the remark on the BoC's neutrality on the timing and direction of the next change to key interest rates. We can therefore assume that the monetary authorities are now ruling out the possibility of having to cut the target for the overnight rate.

**Implications:** As we have thought for several quarters, the next monetary policy change will be a key interest rate increase. The big unknown is the time when the increase will be ordered. Despite some encouraging signs, major uncertainties surround Canada's economic outlook and the BoC will wait several more quarters before going into action. Note that Canada's economy still has surplus production capacity, which offers some leeway. In our opinion, the first hike in the target for the overnight rate will not come before the fall of 2015.

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### **Schedule 2014 of Central Bank meetings**

		Decision	Rate
JANUARY			
9	European Central Bank	s.q.	0.25
9	Bank of England	s.q.	0.50
15	Bank of Brazil	+50 b.p.	10.50
21-22	Bank of Japan		
22	Bank of Canada	s.q.	1.00
29	Reserve Bank of New Zealand	s.q.	2.50
29	Federal Reserve	s.q.	0.25
31	Bank of Mexico	s.q.	3.50
FEBRU	ARY		
3	Reserve Bank of Australia	s.q.	2.50
6	European Central Bank	s.q.	0.25
6	Bank of England	s.q.	0.50
13	Bank of Sweden	s.q.	0.75
17-18	Bank of Japan		
26	Bank of Brazil	+25 b.p.	10.75
MARCH			
WARCE 3	Reserve Bank of Australia	s.q.	2.50
5	Bank of Canada	s.q.	1.00
6	European Central Bank	s.q.	0.25
6	Bank of England	s.q.	0.50
10-11	Bank of Japan		
12	Reserve Bank of New Zealand	+25 b.p.	2.75
19	Federal Reserve	s.q.	0.25
20	Swiss National Bank	s.q.	0.00
21	Bank of Mexico	s.q.	3.50
27	Bank of Norway	s.q.	1.50
31	Reserve Bank of Australia	s.q.	2.50
APRIL			44.00
2	Bank of Brazil	+25 b.p.	11.00
3	European Central Bank	s.q.	0.25
7-8 9	Bank of Japan Bank of Sweden		 0.75
9 10	Bank of England	s.q. s.q.	0.75
16	Bank of Canada	s.q.	1.00
23	Reserve Bank of New Zealand	+25 b.p.	3.00
25	Bank of Mexico	s.q.	3.50
30	Bank of Japan		
30	Federal Reserve	s.q.	0.25
		4.	
MAY			
6	Reserve Bank of Australia	s.q.	2.50
8	European Central Bank	s.q.	0.25
8	Bank of England	s.q.	0.50
8	Bank of Norway	s.q.	1.50
20-21	Bank of Japan Bank of Brazil		
28	Bank of Brazil	s.q.	11.00
JUNE			
3	Reserve Bank of Australia	s.q.	2.50
4	Bank of Canada	s.q.	1.00
5	European Central Bank	-10 b.p.	0.15
5	Bank of England	s.q.	0.50
6	Bank of Mexico	-50 b.p.	3.00
11	Reserve Bank of New Zealand	+25 b.p.	3.25
12-13	Bank of Japan		
18	Federal Reserve	s.q.	0.25
19	Bank of Norway	s.q.	1.50
19	Swiss National Bank	s.q.	0.00

		Decision	<u>Rate</u>
JULY	Deserve Derik of Avetalia		2.50
3	Reserve Bank of Australia European Central Bank	s.q. s.q.	2.50 0.15
3	Bank of Sweden	-50 b.p.	0.25
10	Bank of England	s.q.	0.50
11	Bank of Mexico	s.q.	3.00
14-15	Bank of Japan		
16	Bank of Brazil	s.q.	11.00
16	Bank of Canada	s.q.	1.00
23	Reserve Bank of New Zealand	+25 b.p.	3.50
30	Federal Reserve	s.q.	0.25
AUGUS	т		
5	Reserve Bank of Australia	s.q.	2.50
7	European Central Bank	s.q.	0.15
7	Bank of England	s.q.	0.50
7-8	Bank of Japan		
SEPTE	MBER		
2	Reserve Bank of Australia	s.q.	2.50
3	Bank of Brazil	s.q.	11.00
3	Bank of Canada	s.q.	1.00
3-4			
4	European Central Bank	-10 b.p.	0.05
4 4	Bank of England	s.q.	0.50
4	Bank of Sweden Bank of Mexico	s.q.	0.25 3.00
10	Reserve Bank of New Zealand	s.q. s.q.	3.50
17		s.q.	0.25
18	Bank of Norway	s.q.	1.50
18	Swiss National Bank	s.q.	0.00
00700			
остов 2	European Central Bank		0.05
6	Reserve Bank of Australia	s.q. s.q.	0.05 2.50
6-7			2.00
9	Bank of England	s.q.	0.50
22		s.q.	1.00
23	Bank of Norway		
28	Bank of Sweden		
29	Reserve Bank of New Zealand		
29	Bank of Brazil		
29 31			
31	Bank of Japan Bank of Mexico		
NOVEN			
3	Reserve Bank of Australia		
6	European Central Bank		
6 18-19	Bank of England Bank of Japan		
10-13	Dank of Japan		
DECEM			
1	Reserve Bank of Australia		
3	Bank of Brazil		
3	Bank of Canada European Central Bank		
4	Bank of England		
4 5	Bank of Mexico		
10	Reserve Bank of New Zealand		
11	Bank of Norway		
11	Swiss National Bank		
16	Bank of Sweden		
17	Enderel Becomie		

17 Federal Reserve

18-19 Bank of Japan

Nore: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively.